

City of Milaca, Minnesota

Audited Financial Statements

For The Year Ended
December 31, 2023

**SCHLENNER
WENNER & Co.**
CPAs

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**INTRODUCTORY
SECTION**

**CITY OF MILACA, MINNESOTA
CITY COUNCIL AND OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2023**

CITY COUNCIL

Term Expires

Dave Dillan	Mayor	December 31, 2024
Laurie Gahm	Council Member	December 31, 2024
Norris Johnson	Council Member	December 31, 2026
Lindsee Larsen	Council Member	December 31, 2024
Ken Muller	Council Member	December 31, 2026

CITY OFFICIALS

Tammy Pfaff	Manager
Elizabeth Nealley	Treasurer

**FINANCIAL
SECTION**

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Milaca, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milaca, Minnesota, (the City) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milaca, Minnesota, as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1.H. to the financial statements, the City has elected to change its method of accounting for the pension balances and activity of the Milaca Fire Department during the year ended December 31, 2023. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and pension schedules listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The accompanying introductory section, combining and individual nonmajor fund financial statements and supplemental schedules, and schedule of indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and schedule of indebtedness have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2024 on our consideration of the City of Milaca’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Milaca’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Milaca’s internal control over financial reporting and compliance.



SCHLENNER WENNER & CO.

St. Cloud, Minnesota

June 11, 2024

BASIC FINANCIAL STATEMENTS

**CITY OF MILACA, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2023**

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash, Cash Equivalents, and Investments	\$ 2,874,005	\$ 2,565,675	\$ 5,439,680
Property Taxes Receivable	77,490	-	77,490
Assessments Receivable	3,883	7,417	11,300
Accounts Receivable	19,334	70,918	90,252
Interest Receivable	15,643	-	15,643
Lease Receivables	98,935	305,096	404,031
Due from Other Governments	143,316	-	143,316
Inventory	-	554,374	554,374
Prepays	51,531	14,701	66,232
Noncurrent Assets:			
Capital Assets Not Being Depreciated	485,264	496,897	982,161
Capital Assets Being Depreciated (Net)	7,885,388	4,373,364	12,258,752
Net Pension Asset	190,041	-	190,041
TOTAL ASSETS	11,844,830	8,388,442	20,233,272
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	1,171,447	126,510	1,297,957
LIABILITIES			
Accounts Payable	80,872	178,313	259,185
Salaries Payable	35,137	23,706	58,843
Accrued Interest Payable	23,828	7,035	30,863
Construction Contracts Payable	6,476	-	6,476
Deposits Payable	-	17,846	17,846
Payroll Deductions and Employer Contributions	6,472	-	6,472
Noncurrent Liabilities:			
Amount Due Within One Year	225,104	236,000	461,104
Amount Due After One Year	1,906,478	675,414	2,581,892
Net Pension Liability	884,119	432,466	1,316,585
TOTAL LIABILITIES	3,168,486	1,570,780	4,739,266
DEFERRED INFLOWS OF RESOURCES			
Pensions	1,072,374	137,371	1,209,745
Leases	95,861	285,587	381,448
TOTAL DEFERRED INFLOWS OF RESOURCES	1,168,235	422,958	1,591,193
NET POSITION			
Net Investment in Capital Assets	6,291,335	3,984,261	10,275,596
Restricted	731,560	-	731,560
Unrestricted	1,656,661	2,536,953	4,193,614
TOTAL NET POSITION	\$ 8,679,556	\$ 6,521,214	\$ 15,200,770

**CITY OF MILACA, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 637,284	\$ 73,644	\$ -	\$ -	\$ (563,640)	\$ -	\$ (563,640)
Public Safety	1,401,617	198,378	273,587	-	(929,652)	-	(929,652)
Public Works	813,059	3,000	-	152,474	(657,585)	-	(657,585)
Culture and Recreation	474,147	32,546	-	5,113	(436,488)	-	(436,488)
Economic Development	42,266	-	-	-	(42,266)	-	(42,266)
Airport	120,693	31,687	-	5,756	(83,250)	-	(83,250)
Debt Service	59,815	-	-	-	(59,815)	-	(59,815)
Total Governmental Activities	3,548,881	339,255	273,587	163,343	(2,772,696)	-	(2,772,696)
Business-Type Activities:							
Water	606,998	532,049	9,695	731	-	(64,523)	(64,523)
Sewer	419,208	315,946	884	-	-	(102,378)	(102,378)
Liquor	2,944,232	3,101,869	27	-	-	157,664	157,664
Total Business-Type Activities	3,970,438	3,949,864	10,606	731	-	(9,237)	(9,237)
TOTALS	\$ 7,519,319	\$ 4,289,119	\$ 284,193	\$ 164,074	(2,772,696)	(9,237)	(2,781,933)
General Revenues:							
Taxes					944,394	-	944,394
Tax Increment					44,934	-	44,934
Franchise and Other Tax					35,781	-	35,781
Intergovernmental					953,753	-	953,753
Investment Income (Loss)					196,759	52,447	249,206
Gain (Loss) on Sale of Assets					91,800	-	91,800
Miscellaneous					239,585	13,728	253,313
Total General Revenues					2,507,006	66,175	2,573,181
Transfers					189,000	(189,000)	-
Total General Revenues and Transfers					2,696,006	(122,825)	2,573,181
CHANGE IN NET POSITION					(76,690)	(132,062)	(208,752)
NET POSITION - BEGINNING OF YEAR					8,756,246	6,653,276	15,409,522
NET POSITION - END OF YEAR					\$ 8,679,556	\$ 6,521,214	\$ 15,200,770

See accompanying notes.

**CITY OF MILACA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2023**

	General Fund	Debt Service Fund	Airport Road Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash, Cash Equivalents, and Investments	\$ 1,749,307	\$ 535,173	\$ -	\$ 589,525	\$ 2,874,005
Property Taxes Receivable	59,791	17,699	-	-	77,490
Assessments Receivable	3,883	-	-	-	3,883
Accounts Receivable	19,334	-	-	-	19,334
Interest Receivable	15,643	-	-	-	15,643
Lease Receivables	3,529	95,406	-	-	98,935
Due from Other Funds	214,574	-	-	-	214,574
Due from Other Governments	4,911	-	138,405	-	143,316
Prepays	51,531	-	-	-	51,531
TOTAL ASSETS	\$ 2,122,503	\$ 648,278	\$ 138,405	\$ 589,525	\$ 3,498,711
LIABILITIES					
Accounts Payable	\$ 60,080	\$ -	\$ -	\$ 20,792	\$ 80,872
Salaries Payable	35,137	-	-	-	35,137
Payroll Deductions and Employer Contributions	6,472	-	-	-	6,472
Construction Contracts Payable	-	-	-	6,476	6,476
Due to Other Funds	-	-	138,405	76,169	214,574
Total Liabilities	101,689	-	138,405	103,437	343,531
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue:					
Property Taxes	49,664	14,377	-	-	64,041
Special Assessments	3,883	-	-	-	3,883
Other Receivables	2,303	-	-	-	2,303
Leases	3,417	92,444	-	-	95,861
Total Deferred Inflows of Resources	59,267	106,821	-	-	166,088
FUND BALANCES					
Nonspendable	51,643	2,962	-	-	54,605
Restricted	-	538,495	-	202,516	741,011
Assigned	-	-	-	379,966	379,966
Unassigned	1,909,904	-	-	(96,394)	1,813,510
Total Fund Balances	1,961,547	541,457	-	486,088	2,989,092
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 2,122,503	\$ 648,278	\$ 138,405	\$ 589,525	\$ 3,498,711

CITY OF MILACA, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2023

Total Fund Balances - Governmental Funds \$ 2,989,092

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds:

Capital Assets	\$ 18,892,596	
Accumulated Depreciation	<u>(10,521,944)</u>	
Capital Assets (Net)		8,370,652

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds:

Debt Principal Payable	(1,924,000)	
Bond Premium, Net of Accumulated Amortization	(19,950)	
Financing Arrangements Payable	(135,367)	
Compensated Absences	<u>(52,265)</u>	
		(2,131,582)

The net pension liability and related deferred outflows/inflows represent the allocation of the pension obligations of the statewide plans to the City. Such balances are not reported in the funds:

Net Pension Asset	190,041	
Net Pension Liability	(884,119)	
Deferred Outflows - Pensions	1,171,447	
Deferred Inflows - Pensions	<u>(1,072,374)</u>	
		(595,005)

Interest on long-term debt is recognized as an expenditure when due and payable in the governmental funds. Therefore, interest is not accrued in the governmental funds Balance Sheet, but is accrued in the Statement of Net Position:

(23,828)

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds:

Property Taxes		64,041
Special Assessments		3,883
Other Receivables		<u>2,303</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 8,679,556

CITY OF MILACA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	General Fund	Debt Service Fund	Airport Road Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 723,216	\$ 211,925	\$ -	\$ 26,913	\$ 962,054
Tax Increment	-	-	-	44,934	44,934
Franchise Taxes	8,784	-	-	-	8,784
Special Assessments	3,261	-	-	-	3,261
Licenses, Permits, and Fees	67,341	-	-	-	67,341
Intergovernmental	1,240,376	-	138,405	-	1,378,781
Charges for Services	248,962	21,752	-	-	270,714
Fines	-	-	-	1,200	1,200
Investment Income (Loss)	180,968	2,836	-	9,413	193,217
Lease Interest	142	3,400	-	-	3,542
Miscellaneous	254,985	-	-	81,513	336,498
TOTAL REVENUES	<u>2,728,035</u>	<u>239,913</u>	<u>138,405</u>	<u>163,973</u>	<u>3,270,326</u>
EXPENDITURES					
Current:					
General Government	562,664	-	-	-	562,664
Public Safety	1,124,077	-	-	4,094	1,128,171
Public Works	348,728	-	-	-	348,728
Parks and Recreation	180,038	-	-	42,506	222,544
Library	26,979	-	-	-	26,979
Economic Development	-	-	-	42,166	42,166
Airport	86,434	-	-	-	86,434
Capital Outlay	585,895	-	138,405	165,905	890,205
Debt Service:					
Principal	-	264,000	-	5,555	269,555
Interest and Other Charges	-	59,496	-	1,501	60,997
TOTAL EXPENDITURES	<u>2,914,815</u>	<u>323,496</u>	<u>138,405</u>	<u>261,727</u>	<u>3,638,443</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(186,780)	(83,583)	-	(97,754)	(368,117)
OTHER FINANCING SOURCES (USES)					
Transfers In	238,000	-	-	11,500	249,500
Transfers Out	-	-	-	(60,500)	(60,500)
TOTAL OTHER FINANCING SOURCES (USES)	<u>238,000</u>	<u>-</u>	<u>-</u>	<u>(49,000)</u>	<u>189,000</u>
NET CHANGE IN FUND BALANCES	51,220	(83,583)	-	(146,754)	(179,117)
FUND BALANCES - BEGINNING	<u>1,910,327</u>	<u>625,040</u>	<u>-</u>	<u>632,842</u>	<u>3,168,209</u>
FUND BALANCES - ENDING	<u>\$ 1,961,547</u>	<u>\$ 541,457</u>	<u>\$ -</u>	<u>\$ 486,088</u>	<u>\$ 2,989,092</u>

**CITY OF MILACA, MINNESOTA
RECONCILIATION OF CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023**

Net Change in Fund Balances - Total Governmental Funds \$ (179,117)

Amounts reported for governmental activities in the Statement of Activities are different due to the following:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense:

Capital Outlay Capitalized	642,465	
Depreciation Expense	(706,064)	
Contributions of Capital Assets	20,366	(43,233)

The issuance of long-term debt provides current financial resources to governmental funds while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The amounts below detail the effects of these differences in the treatment of long term debt and related items:

Debt Principal Repayments	269,555	
Amortization of Bond Premium	1,933	271,488

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds only when it is due. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due:

Accrued Interest Payable		(751)
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Under the modified accrual basis of accounting, certain revenues cannot be recognized until they are available to liquidate liabilities of the current period:

Property Taxes	9,337	
Special Assessments	(9,558)	
Other Receivables	2,303	2,082

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated Absences		(14,924)
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Certain liabilities do not represent the impending use of current resources.

Therefore, the change in such liabilities and related deferrals are not reported in the governmental funds:

Net Pension Liability and Deferred Outflows/Inflows of Resources		(112,235)
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (76,690)

**CITY OF MILACA, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2023**

	Water Fund	Sewer Fund	Liquor Fund	Totals
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 952,968	\$ 971,126	\$ 641,581	\$ 2,565,675
Assessments Receivable	2,009	-	-	2,009
Accounts Receivable	44,816	26,102	-	70,918
Inventory	-	-	554,374	554,374
Prepays	4,649	2,027	8,025	14,701
Lease Receivables	11,734	-	-	11,734
Total Current Assets	<u>1,016,176</u>	<u>999,255</u>	<u>1,203,980</u>	<u>3,219,411</u>
Noncurrent Assets				
Capital Assets Not Being Depreciated	442,109	-	54,788	496,897
Capital Assets Being Depreciated (Net)	2,636,083	1,001,017	736,264	4,373,364
Assessments Receivable	5,408	-	-	5,408
Lease Receivables	293,362	-	-	293,362
Total Noncurrent Assets	<u>3,376,962</u>	<u>1,001,017</u>	<u>791,052</u>	<u>5,169,031</u>
TOTAL ASSETS	4,393,138	2,000,272	1,995,032	8,388,442
DEFERRED OUTFLOWS OF RESOURCES				
Pensions	31,253	31,845	63,412	126,510
LIABILITIES				
Current Liabilities				
Accounts Payable	122,539	1,277	54,497	178,313
Salaries Payable	6,070	6,075	11,561	23,706
Deposits Payable	17,846	-	-	17,846
Accrued Interest	7,035	-	-	7,035
Bonds Due Within One Year	236,000	-	-	236,000
Total Current Liabilities	<u>389,490</u>	<u>7,352</u>	<u>66,058</u>	<u>462,900</u>
Noncurrent Liabilities				
Compensated Absences Due After One Year	7,404	7,404	10,606	25,414
Bonds Due After One Year	650,000	-	-	650,000
Net Pension Liability	106,861	108,831	216,774	432,466
Total Noncurrent Liabilities	<u>764,265</u>	<u>116,235</u>	<u>227,380</u>	<u>1,107,880</u>
TOTAL LIABILITIES	1,153,755	123,587	293,438	1,570,780
DEFERRED INFLOWS OF RESOURCES				
Pensions	33,944	34,570	68,857	137,371
Leases	285,587	-	-	285,587
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>319,531</u>	<u>34,570</u>	<u>68,857</u>	<u>422,958</u>
NET POSITION				
Net Investment in Capital Assets	2,192,192	1,001,017	791,052	3,984,261
Unrestricted	758,913	872,943	905,097	2,536,953
TOTAL NET POSITION	<u>\$ 2,951,105</u>	<u>\$ 1,873,960</u>	<u>\$ 1,696,149</u>	<u>\$ 6,521,214</u>

CITY OF MILACA, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Water Fund	Sewer Fund	Liquor Fund	Totals
SALES AND COST OF SALES				
Sales	\$ -	\$ -	\$ 3,101,869	\$ 3,101,869
Cost of Sales	<u>-</u>	<u>-</u>	<u>(2,293,045)</u>	<u>(2,293,045)</u>
GROSS PROFIT	-	-	808,824	808,824
OPERATING REVENUES				
Charges for Services	<u>512,687</u>	<u>311,946</u>	<u>-</u>	<u>824,633</u>
TOTAL GROSS PROFIT AND OPERATING REVENUES	512,687	311,946	808,824	1,633,457
OPERATING EXPENSES				
Wages and Benefits	245,806	249,591	427,597	922,994
Materials and Supplies	18,950	5,067	7,337	31,354
Repairs and Maintenance	44,916	41,354	22,163	108,433
Professional Services	53,805	26,713	12,120	92,638
Insurance	8,136	5,995	5,005	19,136
Utilities	46,688	12,218	33,373	92,279
Miscellaneous	2,660	1,882	75,823	80,365
Depreciation	<u>172,672</u>	<u>76,388</u>	<u>67,769</u>	<u>316,829</u>
TOTAL OPERATING EXPENSES	<u>593,633</u>	<u>419,208</u>	<u>651,187</u>	<u>1,664,028</u>
NET OPERATING INCOME (LOSS)	(80,946)	(107,262)	157,637	(30,571)
NONOPERATING INCOME (EXPENSE)				
Special Assessments	731	-	-	731
Intergovernmental	9,682	-	-	9,682
Connection Fees	-	4,000	-	4,000
Investment Income	16,644	16,200	9,552	42,396
Lease Interest	10,051	-	-	10,051
Miscellaneous	32,534	884	596	34,014
Interest and Other Charges	<u>(13,365)</u>	<u>-</u>	<u>-</u>	<u>(13,365)</u>
TOTAL NONOPERATING INCOME (EXPENSE)	<u>56,277</u>	<u>21,084</u>	<u>10,148</u>	<u>87,509</u>
CHANGE IN NET POSITION PRIOR TO TRANSFERS	(24,669)	(86,178)	167,785	56,938
TRANSFERS				
Operating Transfers In	-	11,000	-	11,000
Operating Transfers Out	<u>-</u>	<u>-</u>	<u>(200,000)</u>	<u>(200,000)</u>
NET TRANSFERS	<u>-</u>	<u>11,000</u>	<u>(200,000)</u>	<u>(189,000)</u>
CHANGE IN NET POSITION	(24,669)	(75,178)	(32,215)	(132,062)
NET POSITION - BEGINNING OF YEAR	<u>2,975,774</u>	<u>1,949,138</u>	<u>1,728,364</u>	<u>6,653,276</u>
NET POSITION - END OF YEAR	<u>\$ 2,951,105</u>	<u>\$ 1,873,960</u>	<u>\$ 1,696,149</u>	<u>\$ 6,521,214</u>

See accompanying notes.

**CITY OF MILACA, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Water Fund	Sewer Fund	Liquor Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	\$ 512,861	\$ 310,905	\$ 3,101,869	\$ 3,925,635
Cash Paid to Suppliers	(170,628)	(91,782)	(2,521,432)	(2,783,842)
Cash Paid to Employees	(235,056)	(238,675)	(412,252)	(885,983)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>107,177</u>	<u>(19,552)</u>	<u>168,185</u>	<u>255,810</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Taxes and Intergovernmental	14,626	973	-	15,599
Other Receipts from Customers	33,968	4,884	595	39,447
Net Operating Subsidies and Transfers from (to) Other Funds	-	11,000	(200,889)	(189,889)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>48,594</u>	<u>16,857</u>	<u>(200,294)</u>	<u>(134,843)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of Capital Assets	(383,878)	(114,880)	(36,140)	(534,898)
Payments on Bond Principal	(167,000)	-	-	(167,000)
Cash Paid for Interest	(16,974)	-	-	(16,974)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(567,852)</u>	<u>(114,880)</u>	<u>(36,140)</u>	<u>(718,872)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income	<u>16,644</u>	<u>16,200</u>	<u>9,552</u>	<u>42,396</u>
Net Change in Cash and Cash Equivalents	(395,437)	(101,375)	(58,697)	(555,509)
Cash and Cash Equivalents - Beginning of Year	<u>1,348,405</u>	<u>1,072,501</u>	<u>700,278</u>	<u>3,121,184</u>
Cash and Cash Equivalents - End of Year	<u>\$ 952,968</u>	<u>\$ 971,126</u>	<u>\$ 641,581</u>	<u>\$ 2,565,675</u>

CITY OF MILACA, MINNESOTA
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Water Fund	Sewer Fund	Liquor Fund	Totals
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Net Operating Income (Loss)	\$ (80,946)	\$ (107,262)	\$ 157,637	\$ (30,571)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	172,672	76,388	67,769	316,829
Changes in Assets, Liabilities, and Deferrals:				
Accounts Receivable	144	(1,041)	-	(897)
Inventory	-	-	(55,075)	(55,075)
Prepays	(2,149)	2,003	(1,418)	(1,564)
Accounts Payable	6,676	(556)	(16,073)	(9,953)
Salaries Payable	373	423	(99)	697
Deposits Payable	30	-	-	30
Net Pension Liability	(35,282)	(35,961)	(74,084)	(145,327)
Deferred Outflows or Resources - Pensions	15,339	15,622	31,827	62,788
Deferred Inflows or Resources - Pensions	27,845	28,357	56,376	112,578
Compensated Absences	2,475	2,475	1,325	6,275
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 107,177	\$ (19,552)	\$ 168,185	\$ 255,810

**CITY OF MILACA, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2023**

	<u>Custodial Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 227,601
Accounts Receivable	619
Prepays	635
TOTAL ASSETS	228,855
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	28,365
LIABILITIES	
Accounts Payable	40,363
Accrued Salaries	5,372
Noncurrent Liabilities:	
Compensated Absences	2,894
Net Pension Liability	95,353
TOTAL LIABILITIES	143,982
DEFERRED INFLOWS OF RESOURCES	
Pensions	30,288
FIDUCIARY NET POSITION	
Fiduciary Net Position - Held for Others	\$ 82,950

**CITY OF MILACA, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Custodial Funds</u>
ADDITIONS	
Licenses and Permits	\$ 6,015,201
Intergovernmental	23,512
Interest Earnings	183
Miscellaneous	678
TOTAL ADDITIONS	6,039,574
 DEDUCTIONS	
Wages and Benefits	186,400
Materials and Supplies	2,652
Repairs and Maintenance	20,831
State Remittances	5,783,709
Equipment and Rent	6,328
Insurance	1,524
Utilities	2,320
Other Services and Charges	6,538
TOTAL DEDUCTIONS	6,010,302
 CHANGE IN FIDUCIARY NET POSITION	 29,272
 FIDUCIARY NET POSITION - BEGINNING OF YEAR	 53,678
 FIDUCIARY NET POSITION - END OF YEAR	 \$ 82,950

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Milaca (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The City has a mayor-council form of government that is governed by an elected mayor and four-member council. The City provides the following services: sanitation, utilities, liquor, recreation, public improvements, public safety, airport, planning and zoning, and general administrative services.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity is comprised of the primary governmental unit of the City of Milaca.

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. Currently, the City has the following blended component unit:

Economic Development Authority of the City of Milaca

The Authority was established pursuant to the provisions of Minnesota Statutes Section 469.090 to 469.108 to promote and provide incentives for economic development, and to preserve and create jobs, enhance the City's tax base and promote the general welfare of the people. The EDA is governed by a board of commissioners consisting of five members, all of whom shall be members of the City Council.

The financial activity of the Authority is performed by the City of Milaca and treated as routine City business.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

Related Organizations

The Fire Relief Association is organized as a non-profit organization by its members to provide benefits to such members in accordance with Minnesota Statutes. Its Board of Directors is appointed by the membership of the organization. All funding is conducted in accordance with Minnesota Statutes, whereby State aids flow through the City to the Association.

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following major governmental funds:

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principal on general long-term debt of the City other than debt service payments made by enterprise funds. Ad valorem taxes and special assessments are used for the payment of principal and interest on the City's indebtedness.

Airport Road Project Fund

The Airport Road Project Fund accounts for the expenditures incurred for the completion of the Airport Road project, including the related grant reimbursements and any other financial resources to be applied to the project.

The City reports the following major proprietary funds:

Enterprise Funds

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The City maintains Water, Sewer, and Liquor Enterprise Funds.

The City reports the following nonmajor fund types:

Capital Project Funds

The nonmajor Capital Project Funds account for financial resources to be used for the acquisition or construction of various other capital projects (other than those financed by proprietary funds).

Special Revenue Funds

The Special Revenue Funds account for funds received by the City with a specific purpose.

Debt Service Funds

The nonmajor Debt Service Funds account for the activity of the tax increment financing districts established by the City.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Additionally, the City reports a custodial fund. This fund is used to account for the financial activity of assets that are being held in a fiduciary capacity on behalf of the State of Minnesota, for the operation of a Motor Vehicle/Driver's License Department.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the "economic resources" measurement focus as defined in the second bullet point below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available financial resources during a given period. These funds use fund balance as their measure of available financial resources at the end of the period.
- The government-wide financial statements and proprietary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the "accrual basis" of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the "modified accrual" basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary and fiduciary funds utilize the accrual basis of accounting.

1.D. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. The appropriated budget is prepared by fund, function, and department. The City of Milaca's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. BUDGETARY INFORMATION (Continued)

Appropriations in all budgeted funds lapse at the end of the fiscal year. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is not employed by the City because it is at present not considered necessary to assure effective budgetary control or to facilitate effective cash management.

1.E. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, and deferred inflows, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1.F. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY

Cash and Cash Equivalents

For purposes of the Statement of Net Position, “cash, cash equivalents, and investments” includes all demand, savings, brokered certificates of deposit, and money market savings accounts for the City. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand, savings, and money market savings accounts.

Investments

Investments are stated at their fair value as determined in accordance with the fair value hierarchy. Short-term investments are reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. Certificates of deposit are stated at cost, plus accrued interest, which approximates fair market value.

Net appreciation (depreciation) in fair value of investments includes net unrealized and realized gains and losses. Purchases and sales of securities are recorded on a trade-date basis.

See Note 2.A. for additional information related to Cash, Cash Equivalents, and Investments.

Prepays

Prepays represent expenditures/expenses paid during the current year to be recognized in future periods.

Inventory

The Liquor Fund carries inventory that consists of items held for resale. Inventory is recognized on the average cost method.

Interfund Receivables and Payables

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “due to and from other funds.” Long-term interfund loans are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities, as well as interfund receivables and payables between funds within business-type activities, are eliminated in the Statement of Net Position. See Note 2.E. for details of interfund transactions, including receivables and payables at year-end.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable and not deemed necessary at year end. Major receivable balances for the governmental activities include taxes, special assessments and charges for services. Business-type activities report utility charges and assessments as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as taxes, assessments, other intergovernmental revenues, fines and charges for services since they are usually both measurable and available. Revenues collectible but not available are deferred in the fund financial statements in accordance with modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and assessments compose the majority of proprietary fund receivables. Allowance for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. No allowances are deemed necessary at year end.

Leases Receivable

Lease receivables are determined based on future lease payments to be received under each corresponding lease agreement over the lease term, discounted using the interest rate applied to the leasing arrangement. If not defined in the lease agreement, implicit interest rates are determined based on the estimated incremental borrowing rate. Collections under the leasing arrangements are recorded as a reduction to the corresponding lease receivable, as well as lease interest revenues.

Upon initial execution of lease, a corresponding deferred inflow of resources balance is recorded. This balance is amortized on a straight-line basis over the term of the lease, resulting in the recognition of lease revenues.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Capital assets are defined by the City based on each individual asset's initial cost and must have an estimated useful life in excess of two years. The City's cost thresholds for capitalization of acquisitions within various categories are as follows:

Land and Improvements	\$12,500
Buildings and Improvements	\$25,000
Infrastructure	\$50,000
Vehicles, Machinery, and Equipment	\$5,000

The range of estimated useful lives by type of asset is as follows:

Buildings and Improvements	7-40 years
Infrastructure	10-50 years
Vehicles, Machinery, and Equipment	3-20 years

Government-wide Statements

In the government-wide financial statements, capital outlay expenditures are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated acquisition value at the date of donation.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Compensated Absences

It is the City's policy to permit employees to accumulate up to 176 hours of vacation leave and be paid out for this leave upon resignation. Additionally, employees may accumulate up to 1,000 hours of sick leave, which is subject to partial payout upon resignation, dependent upon the employee's years of service with the City. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as the result of an employee's resignation or retirement. In the event a liability is recorded in the governmental funds, General Fund resources would typically be used to liquidate the compensated absences.

Long-Term Debt

The accounting treatment of long-term debt and other long-term obligations depends on whether the liabilities pertain to governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Net Pension Asset/Liability

The net pension asset represents the Milaca Fire Department Relief Association's net pension asset as of the most recent actuarial valuation date. The net pension liability represents the City's allocation of its pro-rata share of the net pension liabilities of the Statewide pension plans administered by the Public Employees Retirement Administration.

PERA

For purposes of measuring the net pension asset and liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position report a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The City reports deferred outflows of resources in the government-wide and proprietary fund Statements of Net Position in relation to the activity of the pension funds in which City employees participate.

In addition to liabilities, the Statements of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. As previously discussed, the City reports deferred inflows of resources in both the governmental fund Balance Sheet and both Statements of Net Position in relation to its leasing activities. The City also reports property taxes, special assessments, and other receivables as deferred inflows of resources in the governmental fund financial statements, in accordance with the modified accrual basis of accounting. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available. In addition, the City reports deferred inflows of resources in the government-wide and proprietary fund Statements of Net Position in relation to the activity of pension funds in which City employees participate.

See Notes 3 and 4 for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension activities.

Equity Classifications

Government-wide Statements

Equity is classified as net position and displayed in three components:

Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – The portion of net position for which use is constrained by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted – Remaining balance of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

It is the City’s policy to consider restricted net position to its depletion before unrestricted net position is applied.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Fund Statements

Governmental Fund Financial Statements – In the fund financial statements, governmental funds report fund balances as either nonspendable, restricted, committed, assigned, or unassigned. When the City incurs an expenditure for which it may use either restricted or unrestricted fund balances, it uses restricted fund balances first unless unrestricted fund balances will have to be returned because they were not used. When the City incurs an expenditure for purposes for which amounts in any unrestricted fund balance classification could be used, it uses fund balances in the following order: Committed, assigned, unassigned.

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The nonspendable fund balances at December 31, 2023 consist of prepaid expenditures and leases receivable.

Restricted – That portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the City Council, which is the highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

Assigned – Amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Council has formally delegated the authority to assign fund balances to the City Manager.

Unassigned – This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The City has formally adopted a policy under which it strives to maintain a minimum unassigned General Fund balance of five months of budgeted operating expenditures.

See Note 2.F. for additional disclosures.

Proprietary Fund Financial Statements – Proprietary fund equity is classified the same as in the government-wide statements, as described previously.

1.G. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

Under state law, municipalities are limited in their ability to levy a property tax. The City levies its property tax for the subsequent year during the month of December. Mille Lacs County is the collecting agency for the levy and remits the collections to the City. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

December 30th is the last day the City can certify a tax levy to the County for collection the following year. The County creates the tax list for all taxable property in the City and applies the applicable tax rate to the tax capacity of individual properties to arrive at the actual tax for each property. The County also collects all special assessments, except for certain prepayments paid directly to the City. The County collects all taxes and assessments, except as noted above. The County mails copies of all real estate and personal property tax statements. Each year, property owners are required to pay one half of their real estate taxes by May 15 and the balance by October 15. Penalties and interest are assessed to property owners who do not pay their property taxes and special assessments by the due dates.

**CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.G. REVENUES, EXPENDITURES, AND EXPENSES (Continued)

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by deferred inflows of resources for taxes not received within 60 days after year end in the fund financial statements.

Special Assessments

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with State Statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

Within the government-wide financial statements, the City recognizes special assessment revenue in the period that the assessment roll was adopted by the City Council. Uncollectible special assessments are not material and have not been reported.

Within the governmental fund financial statements, the revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. Special assessments are collected by the County and remitted by December 31 (remitted to the City the following January) and are also recognized as revenue for the current year. All remaining delinquent, deferred, and special deferred assessments receivable in governmental funds are completely offset by deferred inflows of resources.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related to financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Character	Current (further classified by Function)
	Capital Outlay
	Debt Service
Proprietary Fund - By Operating and Nonoperating	

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds, as well as all interfund transfers between individual proprietary funds, have been eliminated. See additional information at Note 2.E.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.H. CHANGE IN ACCOUNTING METHOD

During the year ended December 31, 2023, the City elected to modify its method of accounting for the pension balances and related pension activity of the Milaca Fire Department. In prior years, pension activity and year-end balances have been reported based on the results of actuarial studies completed for year-end dates that coincided with the current year-end reporting date of the City. However, effective in the current year financial statements, the City has transitioned to utilizing actuarial reports with a measurement date of one year prior to the current reporting date. This is a commonly accepted practice, which was recommended to the City by the Public Employees Retirement Association of Minnesota.

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, deferred outflows/inflows of resources, equity, revenues, and expenditures/expenses.

2.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits

In accordance with applicable Minnesota Statutes, the City maintains deposits at depository banks authorized by the City Council. Minnesota Statutes require that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated “A” or better;
- A revenue obligation of a state or local government, with taxing powers, rated “AA” or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits insured by any federal agency.

Minnesota Statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At December 31, 2023, the City’s deposits, including certificates of deposit, were not exposed to custodial credit risk. The City’s deposits were sufficiently covered by federal depository insurance and collateral held by the City’s agent in the City’s name.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments

The City may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City does not have any investment policies that would further limit investment choices.

The City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United State of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investment balances at December 31, 2023 are as follows:

Investment Type	S & P's Credit Rating	Fair Value Level	Fair Value	Investment Maturities (in Years)		
				Less Than 1	1 - 5	6 - 10
Money Market Funds	N/A	N/A	\$ 1,700,345	\$ 1,700,345	\$ -	\$ -
Brokered Certificates of Deposit	NR	Level 2	3,551,953	238,632	2,967,033	346,288
Totals			\$ 5,252,298	\$ 1,938,977	\$ 2,967,033	\$ 346,288

The investments of the City are subject to the following risks:

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes limit the City’s investments.
- Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.
- Concentration of Credit Risk is the risk associated with the magnitude of the City’s investments (considered five percent or more) in the investments of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. At December 31, 2023, the City is not exposed to a significant concentration of credit risk.
- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

**CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.A. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The City has formally adopted an Investment Policy, to ensure compliance with Minnesota Statutes and to address each of the risks above to the extent deemed necessary by the City’s Council.

Deposits and Investments Summary

A reconciliation of cash and investments as shown on the Statements of Net Position for the City follows:

Carrying Amount of Deposits	\$	414,983
Investments		<u>5,252,298</u>
 Total	 \$	 <u><u>5,667,281</u></u>
 <i>Government-wide</i>		
Cash, Cash Equivalents, and Investments	\$	5,439,680
Fiduciary - Custodial Funds Cash and Cash Equivalents		<u>227,601</u>
 Total	 \$	 <u><u>5,667,281</u></u>

2.B. LEASE RECEIVABLES

The City has executed various agreements under which the City leases property to external parties. A summary of the pertinent terms for these leasing arrangements, as well as the corresponding lease receivables, is presented below.

Governmental Activities:

Description	Original Amount	Total Annual Lease Payment	Interest Rate(s)	Maturity Date	Remaining Amount
Deputy Registrar Office Space	\$ 7,973	\$2,400	3.25%	6/30/2025	\$ 3,529
Ambulance Building Space	135,948	\$24,000	3.25%	3/31/2028	<u>95,406</u>
Total Governmental Activities Lease Receivables					<u><u>\$ 98,935</u></u>

Business-Type Activities:

Description	Original Amount	Total Annual Lease Payment	Interest Rate(s)	Maturity Date	Remaining Amount
Telecom Site Property	\$ 324,311	\$18,841 - \$31,456	3.25%	9/30/2038	<u>\$ 305,096</u>

During the year ended December 31, 2023, the City recognized revenues from leasing activities under the arrangements above within governmental activities and business-type activities in the amount of \$27,572 and \$29,413, respectively.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2023 is as follows:

	Balance at 1/1/2023	Additions	Disposals	Transfers	Balance at 12/31/2023
<i>Governmental Activities:</i>					
Capital Assets not Being Depreciated					
Land	\$ 186,526	\$ -	\$ -	\$ -	\$ 186,526
Construction In Progress	-	298,738	-	-	298,738
Total Capital Assets not Being Depreciated	186,526	298,738	-	-	485,264
Capital Assets Being Depreciated					
Buildings and Improvements	5,345,106	6,454	-	-	5,351,560
Infrastructure	9,060,763	80,187	-	-	9,140,950
Equipment, Machinery and Furnishings	3,671,447	277,452	(34,077)	-	3,914,822
Total Capital Assets Being Depreciated	18,077,316	364,093	(34,077)	-	18,407,332
Less: Accumulated Depreciation					
Buildings and Improvements	(2,511,311)	(134,338)	-	-	(2,645,649)
Infrastructure	(5,006,877)	(363,224)	-	-	(5,370,101)
Equipment, Machinery and Furnishings	(2,331,769)	(208,502)	34,077	-	(2,506,194)
Total Accumulated Depreciation	(9,849,957)	(706,064)	34,077	-	(10,521,944)
Total Capital Assets Being Depreciated, Net	8,227,359	(341,971)	-	-	7,885,388
Capital Assets, Net	<u>\$ 8,413,885</u>	<u>\$ (43,233)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,370,652</u>

Depreciation is charged to governmental activities as follows:

General Government	\$ 58,540
Public Safety	140,603
Public Works	292,927
Parks and Recreation	213,994
	<u>706,064</u>
Total Depreciation Expense	<u>\$ 706,064</u>

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.C. CAPITAL ASSETS (Continued)

	Balance at 1/1/2023	Additions	Disposals	Transfers	Balance at 12/31/2023
<i>Business-Type Activities:</i>					
Capital Assets not Being					
Depreciated					
Land	\$ 54,788	\$ -	\$ -	\$ -	\$ 54,788
Construction In Progress	219,708	462,246	-	(239,845)	442,109
Total Capital Assets not Being					
Depreciated	274,496	462,246	-	(239,845)	496,897
Capital Assets Being					
Depreciated					
Buildings and Improvements	4,776,638	-	-	239,845	5,016,483
Infrastructure	5,440,132	-	-	-	5,440,132
Equipment, Machinery and Furnishings	886,852	182,619	-	-	1,069,471
Total Capital Assets Being					
Depreciated	11,103,622	182,619	-	239,845	11,526,086
Less: Accumulated Depreciation					
Buildings and Improvements	(2,543,739)	(115,445)	-	-	(2,659,184)
Infrastructure	(3,579,297)	(148,949)	-	-	(3,728,246)
Equipment, Machinery and Furnishings	(712,858)	(52,434)	-	-	(765,292)
Total Accumulated Depreciation	(6,835,894)	(316,828)	-	-	(7,152,722)
Total Capital Assets Being Depreciated, Net	4,267,728	(134,209)	-	239,845	4,373,364
Capital Assets, Net	\$ 4,542,224	\$ 328,037	\$ -	\$ -	\$ 4,870,261

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.D. NONCURRENT LIABILITIES

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. All debt set forth below are direct obligations of the City and pledge the full faith and credit of the City.

Debt Detail

As of December 31, 2023, the long-term debt of the financial reporting entity consists of the following:

Governmental Activities

General Obligation Bonds					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
08/12	\$ 845,000	\$20,000 - \$95,000	1.00 - 2.15%	02/24	\$ 30,000
03/15	475,000	\$25,000 - \$40,000	2.00 - 3.40%	12/30	255,000
07/19	545,000	\$45,000 - \$55,000	2.10 - 3.00%	02/31	410,000
08/21	715,000	\$40,000 - \$55,000	0.85 - 2.00%	02/37	675,000
06/22	570,000	\$30,000 - \$50,000	3.35 - 4.00%	02/37	535,000
Total Governmental Activities Bonds Payable					\$ 1,905,000

General Obligation Note					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
03/14	\$ 190,000	\$19,000	1.00%	03/24	\$ 19,000

Financing Arrangement					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
01/20	\$ 223,016	\$15,000 - \$54,001	3.85%	01/27	\$ 135,367

At December 31, 2023, the asset acquired via the financing arrangement above has an original cost of \$266,756 and accumulated depreciation of \$52,240, for a net carry value of \$214,516. This asset serves as collateral under the financing arrangement.

Business-Type Activities

General Obligation Revenue Bonds					
Issue Date	Original Amount	Annual Principal Payment	Interest Rate(s)	Maturity Date	Remaining Amount
07/06	\$ 3,060,114	\$70,000 - \$173,000	1.07%	08/26	\$ 513,000
10/22	373,000	\$67,000 - \$80,000	3.25%	02/28	373,000
Total Business-Type Activities Bonds Payable					\$ 886,000

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.D. NONCURRENT LIABILITIES (Continued)

Changes in Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities for the year ended December 31, 2023:

Type of Debt	Balance 01/01/23	Additions	Deductions	Balance 12/31/23	Amounts Due Within One Year
<i>Governmental Activities:</i>					
G.O. Bonds	\$ 2,150,000	\$ -	\$ (245,000)	\$ 1,905,000	\$ 180,000
Unamortized Bond Premium	21,883	-	(1,933)	19,950	-
G.O. Note	38,000	-	(19,000)	19,000	19,000
Promissory Note	5,555	-	(5,555)	-	-
Financing Arrangement	135,367	-	-	135,367	26,104
Compensated Absences	37,341	14,924	-	52,265	-
Total	\$ 2,388,146	\$ 14,924	\$ (271,488)	\$ 2,131,582	\$ 225,104
<i>Business-Type Activities:</i>					
G.O. Revenues Bonds	\$ 1,053,000	\$ -	\$ (167,000)	\$ 886,000	\$ 236,000
Compensated Absences	19,139	6,275	-	25,414	-
Total	\$ 1,072,139	\$ 6,275	\$ (167,000)	\$ 911,414	\$ 236,000

Governmental activity debt is typically funded through Debt Service Funds, with the exception of the promissory note being financed through the Revolving Loan Fund. Business-Type activity debt is typically funded through the Water Fund. Compensated absences is funded through the funds to which the respective employees' wages are allocated.

Annual Debt Service Requirements

At December 31, 2023, the estimated annual debt service requirements to maturity, including principal and interest, are as follows:

Years Ending December 31,	Governmental Activities					
	General Obligation Bonds			General Obligation Note		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 180,000	\$ 49,346	\$ 229,346	\$ 19,000	\$ 190	\$ 19,190
2025	160,000	45,859	205,859	-	-	-
2026	160,000	42,511	202,511	-	-	-
2027	165,000	38,575	203,575	-	-	-
2028	170,000	34,330	204,330	-	-	-
2029-2033	675,000	101,291	776,291	-	-	-
2034-2037	395,000	23,700	418,700	-	-	-
Totals	\$ 1,905,000	\$ 335,612	\$ 2,240,612	\$ 19,000	\$ 190	\$ 19,190

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.D. NONCURRENT LIABILITIES (Continued)

Years Ending December 31,	Governmental Activities		
	Financing Arrangement		
	Principal	Interest	Total
2024	\$ 26,104	\$ 5,212	\$ 31,316
2025	27,109	4,207	31,316
2026	28,153	3,163	31,316
2027	<u>54,001</u>	<u>2,079</u>	<u>56,080</u>
Totals	<u>\$ 135,367</u>	<u>\$ 14,661</u>	<u>\$ 150,028</u>

Years Ending December 31,	Business-Type Activities		
	Principal	Interest	Total
	2024	\$ 236,000	\$ 16,523
2025	244,000	12,440	256,440
2026	248,000	8,205	256,205
2027	78,000	3,867	81,867
2028	<u>80,000</u>	<u>1,300</u>	<u>81,300</u>
Totals	<u>\$ 886,000</u>	<u>\$ 42,335</u>	<u>\$ 928,335</u>

Interest expense totals \$71,634 in the Statement of Activities (included in the Debt Service and Water lines). Interest expenditures total \$57,518 for the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (included in the line Interest and Other Charges) and \$13,365 in the Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds (included in the line Interest and Other Charges).

2.E. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended December 31, 2023:

Major Funds	Transfers Out	Transfers In				Total
		Major Funds		Nonmajor Funds		
		General	Sewer	Governmental		
Liquor	\$ 200,000	\$ 200,000	\$ -	\$ -	\$ -	\$ 200,000
<u>Nonmajor Funds</u>						
Governmental	<u>60,500</u>	<u>38,000</u>	<u>11,000</u>	<u>11,500</u>		<u>60,500</u>
Total	<u>\$ 260,500</u>	<u>\$ 238,000</u>	<u>\$ 11,000</u>	<u>\$ 11,500</u>		<u>\$ 260,500</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget require to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.E. INTERFUND TRANSACTIONS AND BALANCES (Continued)

Interfund balances consist of the following at December 31, 2023.

Short-Term Balances			
Due To Fund	Due From Fund	Amount	Purpose
General	Airport Road Project	\$ 138,405	Eliminate deficit cash balance at year-end.
General	TIF District No. 1-10	76,169	Eliminate deficit cash balance at year-end.
Total Interfund Balances		214,574	
Governmental Fund Elimination		(214,574)	
Total Government-Wide Internal Balances		<u>\$ -</u>	

Interfund balances will be repaid as cashflows become available from future grant revenues or tax increment dollars.

2.F. FUND EQUITY

At December 31, 2023, governmental fund equity consists of the following:

	Nonspendable	Restricted	Assigned	Unassigned
General Fund				
Nonspendable - Prepays	\$ 51,531	\$ -	\$ -	\$ -
Nonspendable - Lease Receivables (Net)	112	-	-	-
Unassigned	-	-	-	1,909,904
Total General Fund Balance	<u>\$ 51,643</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,909,904</u>
Debt Service Funds				
Nonspendable - Lease Receivables (Net)	\$ 2,962	\$ -	\$ -	\$ -
Restricted for Debt Service	-	538,495	-	-
Total Debt Service Funds Balance	<u>\$ 2,962</u>	<u>\$ 538,495</u>	<u>\$ -</u>	<u>\$ -</u>
Nonmajor Governmental Funds				
Restricted for Capital Projects	\$ -	\$ 101,739	\$ -	\$ -
Restricted for Economic Development Loans	-	60,919	-	-
Restricted for Police Forfeiture Enforcement	-	10,284	-	-
Restricted for Allowable Charitable Gambling Uses	-	29,574	-	-
Assigned for Park Improvements	-	-	322,054	-
Assigned for Milaca Economic Development Authority	-	-	45,699	-
Assigned for Youth Safety	-	-	2,084	-
Assigned for City Events	-	-	10,129	-
Unassigned	-	-	-	(96,394)
Total Nonmajor Governmental Funds Balance	<u>\$ -</u>	<u>\$ 202,516</u>	<u>\$ 379,966</u>	<u>\$ (96,394)</u>

**CITY OF MILACA, MINNESOTA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2023**

NOTE 2 DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.F. FUND EQUITY (Continued)

Additionally, nonmajor funds with deficit fund balances at December 31, 2023 are as follows:

Fund	Fund Deficit
Nonmajor Governmental Funds	
TIF District No. 1-10 Fund	\$ 96,394

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE

Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA’s defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA’s defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the City of Milaca are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Public Employees Police and Fire Plan

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by State Statute and can only be modified by the State Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

General Employees Plan benefits are based on a member’s highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA’s Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.20 percent for each of the first 10 years of service and 1.70 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.70 percent for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2023 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2023 were \$80,016. The City's contributions were equal to the required contributions as set by State Statute.

Police and Fire Fund Contributions

Police and Fire members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2023 and the City was required to contribute 17.70 percent for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the year ended December 31, 2023 were \$94,965. The City's contributions were equal to the required contributions as set by State Statute.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Pension Costs

General Employees Fund Pension Costs

At December 31, 2023, the City reported a liability of \$766,089 for its proportionate share of the General Employees Fund’s net pension liability. The City’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the State’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the City totaled \$21,152. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportionate share of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0137 percent at the end of the measurement period and 0.0132 percent for the beginning of the period.

City’s proportionate share of the net pension liability:	\$766,089
State of Minnesota’s proportionate share of the net pension liability associated with the City	<u>21,152</u>
Total	<u>\$787,241</u>

For the year ended December 31, 2023, the City recognized pension expense of \$30,077 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized \$95 as grant revenue for its proportionate share of the State of Minnesota’s pension expense for the annual \$16 million contribution.

At December 31, 2023, the City reported its proportionate share of the General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 24,938	\$ 4,777
Changes in actuarial assumptions	112,540	209,978
Difference between projected and actual investment earnings	-	13,600
Changes in proportionate share	46,782	14,989
Contributions paid to PERA subsequent to the measurement date	<u>40,516</u>	<u>-</u>
Total Deferred Outflows/Inflows	<u>\$ 224,776</u>	<u>\$ 243,344</u>

**CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

The \$40,516 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense
2024	\$ 20,374
2025	\$ (87,045)
2026	\$ 24,205
2027	\$ (16,618)

Police and Fire Fund Pension Costs

At December 31, 2023, the City reported a liability of \$645,849 for its proportionate share of the Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportionate share of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0374 percent at the end of the measurement period and 0.0365 percent for the beginning of the period.

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2023. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million direct state was paid on October 1, 2022. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. The State of Minnesota’s proportionate share of the net pension liability associated with the City totaled \$26,011.

City’s proportionate share of the net pension liability:	\$ 645,849
State of Minnesota’s proportionate share of the net pension liability associated with the City	<u>26,011</u>
Total	<u>\$ 671,860</u>

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota’s pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2023, the City recognized pension expense of negative \$10,403 for its proportionate share of the Police and Fire Plan’s pension expense. The City recognized negative \$1,567 as grant revenue for its proportionate share of the State of Minnesota’s pension expense for the contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City recognized \$3,363 for the year ended December 31, 2023 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota’s on-behalf contributions to the Police and Fire Fund.

**CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

At December 31, 2023, the City reported its proportionate share of the Police and Fire Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 173,876	\$ -
Changes in actuarial assumptions	706,235	907,971
Difference between projected and actual investment earnings	-	2,401
Changes in proportionate share	57,184	25,906
Contributions paid to PERA subsequent to the measurement date	49,797	-
 Total Deferred Outflows/Inflows	 \$ 987,092	 \$ 936,278

The \$49,797 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense
2024	\$ 36,250
2025	\$ 10,358
2026	\$ 143,239
2027	\$ (35,118)
2028	\$ (153,712)

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2023, including amortization of deferral balances, was \$142,069.

**CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Long-Term Expected Return on Investment

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.50%	5.10%
International Equity	16.50%	5.30%
Fixed Income	25.00%	0.75%
Private Markets	25.00%	5.90%
Total	100%	

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2023 actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.0 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan and Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan and 1.0 percent for the Police and Fire Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA’s experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation. The most recent four-year experience studies for the Police and Fire Plan were completed in 2020 and were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

General Employees Fund

Changes in Actuarial Assumptions:

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Changes in Plan Provisions:

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023
- The vesting period of those hired after June 30, 2010 was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024 was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Police and Fire Fund

Changes in Actuarial Assumptions:

- The investment return assumption was changed from 6.5 percent to 7.00 percent.
- The single discount rate changed from 5.4 percent to 7.0 percent.

Changes in Plan Provisions:

- Additional one-time direct state aid contribution of 19.4 million will be contributed to the Plan on October 1, 2023.
- Vesting requirement for new hires after June 30, 2014, was changed from a graded 20-year vesting schedule to a graded 10-year vesting schedule, with 50 percent vesting after five years, increasing incrementally to 100 percent after 10 years.
- A one-time, non-compounding benefit increase of 3.0 percent will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- Psychological treatment is required effective July 1, 2023, prior to approval for a duty disability benefit for a psychological condition relating to the member’s occupation.
- The total and permanent duty disability benefit was increased, effective July 1, 2023.

Discount Rate

The discount rate used to measure the total pension liability in 2023 was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following table presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Sensitivity of Net Pension Liability at Current Single Discount Rate					
	General Employees Fund		Police and Fire Fund		
1% Increase in Discount Rate	8.00%	\$ 281,463	8.00%	\$ 123,307	
Current Discount Rate	7.00%	\$ 766,089	7.00%	\$ 645,849	
1% Decrease in Discount Rate	6.00%	\$ 1,355,272	6.00%	\$ 1,281,442	

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 4 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN

Plan Description

The Milaca Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2022 (the measurement date), the plan covered 22 active firefighters and 11 vested terminated fire fighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

Benefits Provided

The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*, and voluntary City contributions. The State of Minnesota contributed \$65,576 in fire state aid to the plan for the year ended December 31, 2023. Required employer contributions are calculated annually based on statutory provisions. The City of Milaca’s statutorily-required contributions to the Volunteer Firefighter Plan for the year ended December 31, 2023 were \$0.

Pension Costs

At December 31, 2023, the City of Milaca reported a net pension asset of \$190,041 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2022. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 4 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)

The following table presents the changes in net pension asset during the measurement period.

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balance Beginning of Period - 12/31/21	\$ 539,080	\$ 1,029,847	\$ (490,767)
Service Cost	43,069	-	43,069
Interest on Pension Liability	34,929	-	34,929
Actuarial Experience (Gains)/Losses	(37,261)	-	(37,261)
Projected Investment Earnings	-	(153,393)	153,393
Contributions (State)	-	57,530	(57,530)
Changes in Benefit Level	163,162	-	163,162
Administrative Fees	-	(964)	964
Net Changes	<u>203,899</u>	<u>(96,827)</u>	<u>300,726</u>
Balance End of Period - 12/31/22	<u>\$ 742,979</u>	<u>\$ 933,020</u>	<u>\$ (190,041)</u>

For the year ended December 31, 2023, the City recognized pension expense of negative \$8,047.

At December 31, 2023, the City of Milaca reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in actuarial assumptions	\$ -	\$ 60,411
Difference between projected and actual investment earnings	<u>114,454</u>	<u>-</u>
Total Deferred Outflows/Inflows	<u>\$ 114,454</u>	<u>\$ 60,411</u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	<u>Pension Expense</u>
2024	\$ (14,648)
2025	\$ 6,469
2026	\$ 26,637
2027	\$ 35,585

**CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 4 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)

Actuarial Assumptions

The total pension liability measured at December 31, 2022 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.0 percent
- Inflation rate of 3.0 percent

There were no changes in actuarial assumptions in 2022.

Discount Rate

The discount rate used to measure the total pension liability was six percent. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the City’s net pension asset for the Volunteer Firefighter Fund, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’s net pension asset would be if it were calculated using a discount rate one percent lower or one percent higher than the current discount rate:

	<u>1% Decrease in Discount Rate (5.00%)</u>	<u>Discount Rate (6.00%)</u>	<u>1% Increase in Discount Rate (7.00%)</u>
Net Pension Asset	\$ 160,555	\$ 190,041	\$ 217,995

Plan Investments

Investment Policy

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the governor (who is designated as chair of the board), state auditor, secretary of state and state attorney general.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in Minnesota Statutes, Chapter 11A and Chapter 353G.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

**CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 4 STATEWIDE VOLUNTEER FIREFIGHTER RETIREMENT PLAN (Continued)

Asset Allocation

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Unallocated Cash	5%	0.00%

The six percent long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

Description of significant investment policy changes during the year

The SBI made no significant changes to their investment policy during Fiscal Year 2023 for Volunteer Firefighter Fund.

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund’s fiduciary net position as of December 31, 2022 is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 5 OTHER NOTES

5.A. RISK MANAGEMENT

Claims and Judgements

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage these risks, the City purchases commercial insurance. The City retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported. The City’s management is not aware of any incurred but unreported claims.

**CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 5 OTHER NOTES (Continued)

5.B. TAX INCREMENT FINANCING DISTRICTS

The City occasionally enters into tax increment financing arrangements with local businesses for the purpose of stimulating economic growth within the City. Eligibility for businesses seeking tax abatements of this nature is determined in accordance the applicable Minnesota Statutes, and such arrangements generally include a commitment by the local business to use the abated funds for financing a development or redevelopment project. Any tax increment generated by the district and not retained by the City for administrative costs is returned to the business to finance the debt incurred for the related improvements.

The following is a summary of the City’s current tax increment financing districts:

	District #4-10
Business Name	RDT Properties, LLC
Purpose	Redevelopment
Authorizing MN Statute:	469.174
Year Established:	2010
Duration of District:	Through 2036
Original Base Net Tax Capacity:	\$ 20,088
Current Net Tax Capacity:	\$ 63,954
Captured Net Tax Capacity:	
Retained by City	\$ 43,866
Amount Abated	\$ 40,440
Shared with Other Taxing Districts	\$ -
Total Bonds Issued:	None

5.C. COMMITMENTS

Construction Contracts

The City has entered into a contract to purchase a pumper firetruck. The remaining commitment under this contract at December 31, 2023 totals \$864,890.

5.D. DEFINED CONTRIBUTION PLAN

The City provides eligible employees future retirement benefits through a voluntary retirement savings plan (the Plan) authorized under Section 457 of the internal revenue code. The City has contracted with a private brokerage firm to establish the Plan, and plan assets are not held in a formal trust meeting the criteria defined by GASB No. 73, par 4. The City Council acts as the plan administrator, but the City is not involved with the investment decisions for plan assets. Eligible employees of the City may begin participating in the Plan commencing on the date of their employment by electing to have a percentage of their pay contributed to the Plan. The City does not make employer contributions.

The City is holding assets in a 457 retirement plan trust, on behalf of a retired employee. This 457 retirement plan trust is a different plan than described above, and is no longer offered to City employees. At December 31, 2023, the trust had a balance of approximately \$9,713. The City does not have any form of administrative authority over the trust, nor does it have the ability to access the funds within.

CITY OF MILACA, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 5 OTHER NOTES (Continued)

5.E. CONDUIT DEBT OBLIGATIONS

The City has issued Minnesota Revenue Bonds, Series 2003, 2013, 2016, 2019, and 2020, to provide financial assistance to private-sector entities for the acquisition and construction of commercial facilities deemed to be in the public interest. The bonds are secured by the property of the private-sector entities and are payable solely from the revenues of the private-sector entities. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entities secured by the bond issuances. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2023, such notes are outstanding with an aggregate principal amount payable of approximately \$15,282,264.

5.F. SUBSEQUENT EVENTS

Subsequent to year-end and prior to the issuance of these financial statements, the City approved a bid for a contract for airport parking lot and entrance road construction services totaling \$170,029. The City Council also approved the issuance of General Obligation Street Reconstruction Bonds in the amount of \$600,000.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF MILACA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Budget Amounts Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
REVENUES			
Taxes			
Property Taxes	\$ 745,097	\$ 723,132	\$ (21,965)
Franchise Taxes	12,000	8,784	(3,216)
Hotel/Motel Taxes	500	84	(416)
Total Taxes	<u>757,597</u>	<u>732,000</u>	<u>(25,597)</u>
Special Assessments	7,250	3,261	(3,989)
Licenses and Permits	63,235	67,341	4,106
Intergovernmental Revenue			
State Revenue			
Local Government Aid	954,814	954,814	-
Market Value Credit	600	476	(124)
PERA Aid	2,500	-	(2,500)
Police and Fire Aid	60,000	142,709	82,709
Other State Grants and Aids	312,900	141,222	(171,678)
County Revenue			
Other County Grants and Aids	-	1,155	1,155
Total Intergovernmental Revenue	<u>1,330,814</u>	<u>1,240,376</u>	<u>(90,438)</u>
Charges for Services			
General Government	7,000	6,303	(697)
Police and Fire Contracts	150,300	175,426	25,126
Streets and Highways	4,200	3,000	(1,200)
Parks and Recreation	17,500	32,546	15,046
Airports	29,199	31,687	2,488
Total Charges for Services	<u>208,199</u>	<u>248,962</u>	<u>40,763</u>
Miscellaneous Revenue			
Investment Earnings	48,600	181,110	132,510
Sale of Assets	-	15,400	15,400
Refunds and Reimbursements	10,000	25,006	15,006
Contributions and Donations	160,000	189,700	29,700
Other Miscellaneous	10,000	24,879	14,879
Total Miscellaneous Revenue	<u>228,600</u>	<u>436,095</u>	<u>207,495</u>
TOTAL REVENUES	2,595,695	2,728,035	132,340

CITY OF MILACA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2023

	Budget Amounts Original and Final	Actual Amounts Budgetary Basis	Variance with Budget Over (Under)
EXPENDITURES			
General Government			
Mayor and Council	21,450	15,063	(6,387)
Administration and Finance	169,883	151,855	(18,028)
Other General Government	374,840	395,746	20,906
Capital Outlay	21,800	27,516	5,716
Total General Government	587,973	590,180	2,207
Public Safety			
Police			
Current	858,332	870,667	12,335
Capital Outlay	63,000	52,097	(10,903)
Fire			
Current	190,910	206,043	15,133
Capital Outlay	118,750	81,288	(37,462)
Other Public Safety			
Current	33,000	47,367	14,367
Total Public Safety	1,263,992	1,257,462	(6,530)
Public Works			
Street Maintenance and Storm Sewers	296,699	306,120	9,421
Snow and Ice Removal	7,000	2,698	(4,302)
Street Lighting	47,000	39,910	(7,090)
Capital Outlay - Street Construction	175,000	197,303	22,303
Capital Outlay - Other	35,000	84,588	49,588
Total Public Works	560,699	630,619	69,920
Culture and Recreation			
Libraries			
Current	27,200	26,979	(221)
Parks and Recreation			
Current	203,783	180,038	(23,745)
Capital Outlay	70,000	143,103	73,103
Total Culture and Recreation	300,983	350,120	49,137
Miscellaneous Expenditures			
Airports			
Current	89,448	86,434	(3,014)
TOTAL EXPENDITURES	2,803,095	2,914,815	111,720

CITY OF MILACA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>Budget Amounts Original and Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Budget Over (Under)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(207,400)	(186,780)	20,620
OTHER FINANCING SOURCES (USES)			
Transfers			
From Other Funds	<u>208,000</u>	<u>238,000</u>	<u>30,000</u>
NET CHANGE IN FUND BALANCE	<u>\$ 600</u>	51,220	<u>\$ 50,620</u>
FUND BALANCES - BEGINNING		<u>1,910,327</u>	
FUND BALANCE - ENDING		<u>\$ 1,961,547</u>	

NOTES TO THE BUDGETARY COMPARISON SCHEDULE

Note 1 - Expenditures in Excess of Budget

Actual expenditures in the General Fund of \$2,914,815 exceeded the final budgeted expenditures by \$111,720 for the current year. This is primarily due to unbudgeted capital outlay expenditures.

CITY OF MILACA, MINNESOTA
SCHEDULE OF CITY'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
LAST TEN YEARS (Presented Prospectively)

For the Measurement Year Ended June 30	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	City's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<i>General Employees Retirement Pension Plan</i>							
2023	0.0137%	\$ 766,089	\$ 21,152	\$ 787,241	\$ 1,047,347	75.2%	83.1%
2022	0.0132%	\$ 1,045,444	\$ 30,453	\$ 1,075,897	\$ 983,987	109.3%	76.7%
2021	0.0124%	\$ 529,536	\$ 16,198	\$ 545,734	\$ 893,000	61.1%	79.1%
2020	0.0134%	\$ 803,391	\$ 24,750	\$ 828,141	\$ 955,427	86.7%	79.1%
2019	0.0132%	\$ 729,798	\$ 22,666	\$ 752,464	\$ 938,171	80.2%	80.2%
2018	0.0120%	\$ 655,771	\$ -	\$ 655,771	\$ 842,071	77.9%	79.5%
2017	0.0117%	\$ 746,920	\$ -	\$ 746,920	\$ 773,727	96.5%	75.9%
2016	0.0123%	\$ 998,699	\$ -	\$ 998,699	\$ 748,344	133.5%	68.9%
2015	0.0123%	\$ 637,450	\$ -	\$ 637,450	\$ 724,130	88.0%	78.2%
<i>Public Employees Police and Fire Pension Plan</i>							
2023	0.0374%	\$ 645,849	\$ 26,011	\$ 671,860	\$ 509,169	132.0%	86.5%
2022	0.0365%	\$ 1,588,336	\$ 69,397	\$ 1,657,733	\$ 443,734	373.6%	70.5%
2021	0.0328%	\$ 253,181	\$ 11,391	\$ 264,572	\$ 387,836	68.2%	87.2%
2020	0.0363%	\$ 478,473	\$ 11,286	\$ 489,759	\$ 409,633	119.6%	87.2%
2019	0.0371%	\$ 394,967	\$ -	\$ 394,967	\$ 391,312	100.9%	89.3%
2018	0.0340%	\$ 362,405	\$ -	\$ 362,405	\$ 367,843	98.5%	78.5%
2017	0.0320%	\$ 432,038	\$ -	\$ 432,038	\$ 342,568	126.1%	75.9%
2016	0.0350%	\$ 1,404,611	\$ -	\$ 1,404,611	\$ 334,240	420.2%	63.8%
2015	0.0350%	\$ 397,682	\$ -	\$ 397,682	\$ 311,900	127.5%	78.7%

Note: The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

CITY OF MILACA, MINNESOTA
SCHEDULE OF CITY PENSION CONTRIBUTIONS
LAST TEN YEARS (Presented Prospectively)

For the Fiscal Year Ended December 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
<i>General Employees Retirement Pension Plan</i>					
2023	\$ 80,016	\$ 80,016	\$ -	\$ 1,066,880	7.50%
2022	\$ 77,693	\$ 77,693	\$ -	\$ 1,035,907	7.50%
2021	\$ 67,181	\$ 67,181	\$ -	\$ 895,747	7.50%
2020	\$ 69,896	\$ 69,896	\$ -	\$ 931,947	7.50%
2019	\$ 75,279	\$ 75,279	\$ -	\$ 1,003,718	7.50%
2018	\$ 63,155	\$ 63,155	\$ -	\$ 842,718	7.49%
2017	\$ 58,030	\$ 58,030	\$ -	\$ 773,727	7.50%
2016	\$ 56,126	\$ 56,126	\$ -	\$ 748,334	7.50%
2015	\$ 53,290	\$ 53,290	\$ -	\$ 724,130	7.36%
<i>Public Employees Police and Fire Pension Plan</i>					
2023	\$ 94,965	\$ 94,965	\$ -	\$ 536,525	17.70%
2022	\$ 85,384	\$ 85,384	\$ -	\$ 482,395	17.70%
2021	\$ 69,066	\$ 69,066	\$ -	\$ 390,203	17.70%
2020	\$ 75,386	\$ 75,386	\$ -	\$ 425,910	17.70%
2019	\$ 67,143	\$ 67,143	\$ -	\$ 396,124	16.95%
2018	\$ 59,591	\$ 59,591	\$ -	\$ 367,843	16.20%
2017	\$ 55,496	\$ 55,496	\$ -	\$ 342,568	16.20%
2016	\$ 54,147	\$ 54,147	\$ -	\$ 334,240	16.20%
2015	\$ 50,474	\$ 50,474	\$ -	\$ 311,900	16.18%
<i>Volunteer Fire Relief Association</i>					
2023	\$ -	\$ -	\$ -	N/A	N/A
2022	\$ -	\$ -	\$ -	N/A	N/A
2021	\$ -	\$ -	\$ -	N/A	N/A
2020	\$ -	\$ -	\$ -	N/A	N/A
2019	\$ -	\$ -	\$ -	N/A	N/A

Note: The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2015 and is intended to show a ten year trend. The Volunteer Fire Relief Association schedule is provided prospectively with the City's fiscal year ended December 31, 2019. Additional years will be reported as they become available.

CITY OF MILACA, MINNESOTA
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)
STATEWIDE VOLUNTEER FIREFIGHTER FUND
LAST TEN YEARS (Presented Prospectively)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Changes in Total Pension Liability (TPL)				
Balance at January 1st	\$ 539,080	\$ 490,050	\$ 477,815	\$ 454,108
Service Cost	43,069	33,510	36,404	25,906
Interest on the TPL	34,929	31,262	28,222	28,582
Assumption Changes	(37,261)	(10,682)	(48,721)	(23,521)
Changes in Benefit Level	163,162	-	84,030	-
Benefit Payments	<u>-</u>	<u>(5,060)</u>	<u>(87,700)</u>	<u>(7,260)</u>
Balance at December 31st	<u>\$ 742,979</u>	<u>\$ 539,080</u>	<u>\$ 490,050</u>	<u>\$ 477,815</u>
Plan Fiduciary Net Position (PFNP)				
Balance at January 1st	\$ 1,029,847	\$ 880,539	\$ 816,759	\$ 655,600
Fire State Aid	57,530	54,793	51,210	47,841
Projected Investment Income	(153,393)	86,886	101,126	121,399
Gain or Loss	<u>-</u>	<u>13,700</u>	<u>-</u>	<u>-</u>
Total Additions	(95,863)	155,379	152,336	169,240
Benefit Payments	-	(5,060)	(87,700)	(7,260)
Administrative Expenses	<u>(964)</u>	<u>(1,011)</u>	<u>(856)</u>	<u>(821)</u>
Total Reductions	<u>(964)</u>	<u>(6,071)</u>	<u>(88,556)</u>	<u>(8,081)</u>
Balance at December 31st	<u>\$ 933,020</u>	<u>\$ 1,029,847</u>	<u>\$ 880,539</u>	<u>\$ 816,759</u>
Net Pension Liability (Asset) - December 31st	<u>\$ (190,041)</u>	<u>\$ (490,767)</u>	<u>\$ (390,489)</u>	<u>\$ (338,944)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Asset)	126%	191%	180%	171%

Note: The schedule is provided prospectively beginning with the City's fiscal year ended December 31, 2019 (which coincided with the City's fiscal year-end at that time) and is intended to show a ten year trend. Additional years will be reported as they become available.

CITY OF MILACA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND

2023 Changes

Changes in Actuarial Assumptions

- The investment return assumption and single discount rate were changed from 6.5 percent to 7.00 percent.

Changes in Plan Provisions

- An additional one time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010 was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024 was eliminated.
- A one-time, non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 Changes

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2021 Changes

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2020 Changes

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.

CITY OF MILACA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)

- The assumed number of married male new retirees electing the 100 percent Joint & Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint & Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0 percent for the period July 1, 2020 through December 31, 2023 and 0.0 percent after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

CITY OF MILACA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)

Changes in Plan Provisions

- The State’s contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state’s contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State’s contribution of \$6 million, which meets the special funding situation definition, was due September 2015.

NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND

2023 Changes

Changes in Actuarial Assumptions

- The investment return assumption was changed from 6.5 percent to 7.00 percent.
- The single discount rate was changed from 5.4 percent to 7.0 percent.

Changes in Plan Provisions

- Additional one-time direct state aid contribution of 19.4 million will be contributed to the Plan on October 1, 2023.
- Vesting requirement for new hires after June 30, 2014, was changed from a graded 20-year vesting schedule to a graded 10-year vesting schedule, with percent vesting after five years, increasing incrementally to 100% after 10 years.
- A one-time, non-compounding benefit increase of 3.0 percent will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- Psychological treatment is required effective July 1, 2023, prior to approval for a duty disability benefit for a psychological condition relating to the member’s occupation.
- The total and permanent duty disability benefit was increased, effective July 1, 2023.

CITY OF MILACA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND (Continued)

2022 Changes

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.
- The single discount rate changed from 6.5 percent to 5.40 percent.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2021 Changes

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

2020 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2018 to MP-2019.

2019 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

2018 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2016 to MP-2017.

CITY OF MILACA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND (Continued)

Changes in Plan Provisions

- Postretirement benefit increases were changed to 1.00 percent for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed from 10.80 percent to 11.30 percent of pay, effective January 1, 2019 and 11.80 percent of pay, effective January 1, 2020.
- Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The combined service annuity (CSA) load was 30.00 percent for vested and non-vested, deferred members. The CSA has been changed to 33.00 percent for vested members and 2.00 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.00 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65.00 percent to 60.00 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed postretirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent thereafter to 1.00 percent per year for all future years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent.
- The single discount rate changed from 7.90 percent to 5.60 percent.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

CITY OF MILACA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

NOTE 2 PUBLIC EMPLOYEES RETIREMENT PLAN – POLICE AND FIRE FUND (Continued)

2015 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2037 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.50 percent, to a fixed rate of 2.50 percent.

NOTE 3 DEFINED BENEFIT PLAN – FIRE RELIEF ASSOCIATION

2023 Reporting Period Changes

During the City’s reporting period ending December 31, 2023, the City began reporting pension balances and activity using actuarial reports for the measurement period ending one year prior to the City’s current reporting period. Prior to this change, the City’s reporting period had coincided with the measurement period date.

2022 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2022.

2021 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2021.

2020 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2020.

2019 Changes

Changes in Actuarial Assumptions

- There were no significant changes made to actuarial assumptions during 2019.

SUPPLEMENTARY INFORMATION

**CITY OF MILACA, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2023**

	Capital Project Funds				Special Revenue Funds		
	All Parks Improvement Fund	Rec Park Improvement Fund	Veterans Memorial	Capital Projects Fund	EDA Fund	Youth Safety	Charitable Gambling
ASSETS							
Cash, Cash Equivalents, and Investments	<u>\$ 187,127</u>	<u>\$ 133,448</u>	<u>\$ 1,479</u>	<u>\$ 101,739</u>	<u>\$ 52,308</u>	<u>\$ 2,084</u>	<u>\$ 30,008</u>
LIABILITIES							
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 133	\$ -	\$ 434
Construction Contracts Payable	-	-	-	-	6,476	-	-
Due to Other Funds	-	-	-	-	-	-	-
Total Liabilities	-	-	-	-	6,609	-	434
FUND BALANCES							
Restricted	-	-	-	101,739	-	-	29,574
Assigned	187,127	133,448	1,479	-	45,699	2,084	-
Unassigned	-	-	-	-	-	-	-
Total Fund Balances	<u>187,127</u>	<u>133,448</u>	<u>1,479</u>	<u>101,739</u>	<u>45,699</u>	<u>2,084</u>	<u>29,574</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 187,127</u>	<u>\$ 133,448</u>	<u>\$ 1,479</u>	<u>\$ 101,739</u>	<u>\$ 52,308</u>	<u>\$ 2,084</u>	<u>\$ 30,008</u>

CITY OF MILACA, MINNESOTA
COMBINING BALANCE SHEET (Continued)
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2023

	Special Revenue Funds				Debt Service	Total Nonmajor Funds
	Revolving Loan	Police Forfeitures	REC Fest	City Event	TIF District No. 1-10	
ASSETS						
Cash, Cash Equivalents, and Investments	\$ 60,919	\$ 10,284	\$ -	\$ 10,129	\$ -	\$ 589,525
LIABILITIES						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 20,225	\$ 20,792
Construction Contracts Payable	-	-	-	-	-	6,476
Due to Other Funds	-	-	-	-	76,169	76,169
Total Liabilities	-	-	-	-	96,394	103,437
FUND BALANCES						
Restricted	60,919	10,284	-	-	-	202,516
Assigned	-	-	-	10,129	-	379,966
Unassigned	-	-	-	-	(96,394)	(96,394)
Total Fund Balances	60,919	10,284	-	10,129	(96,394)	486,088
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 60,919</u>	<u>\$ 10,284</u>	<u>\$ -</u>	<u>\$ 10,129</u>	<u>\$ -</u>	<u>\$ 589,525</u>

CITY OF MILACA, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BLANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Capital Project Funds				Special Revenue Funds		
	All Parks Improvement Fund	Rec Park Improvement Fund	Veterans Memorial	Capital Projects Fund	EDA Fund	Youth Safety	Charitable Gambling
REVENUES							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,913
Tax Increment	-	-	-	-	-	-	-
Fines	-	-	-	-	-	-	-
Investment Income	3,068	2,096	-	-	1,878	32	1,031
Miscellaneous	-	-	5,113	-	76,400	-	-
TOTAL REVENUES	<u>3,068</u>	<u>2,096</u>	<u>5,113</u>	<u>-</u>	<u>78,278</u>	<u>32</u>	<u>27,944</u>
EXPENDITURES							
Current:							
Public Safety	-	-	-	-	-	-	-
Parks and Recreation	-	1,000	-	-	-	-	23,538
Economic Development	-	-	-	-	1,654	-	-
Capital Outlay	18,342	-	2,575	5,188	139,800	-	-
Debt Service:							
Principal	-	-	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-	-	-
TOTAL EXPENDITURES	<u>18,342</u>	<u>1,000</u>	<u>2,575</u>	<u>5,188</u>	<u>141,454</u>	<u>-</u>	<u>23,538</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(15,274)	1,096	2,538	(5,188)	(63,176)	32	4,406
OTHER FINANCING SOURCES (USES)							
Transfers In	-	-	-	-	-	-	-
Transfers Out	-	(11,500)	-	-	-	-	(49,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(11,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(49,000)</u>
NET CHANGE IN FUND BALANCES	(15,274)	(10,404)	2,538	(5,188)	(63,176)	32	(44,594)
FUND BALANCES - BEGINNING	<u>202,401</u>	<u>143,852</u>	<u>(1,059)</u>	<u>106,927</u>	<u>108,875</u>	<u>2,052</u>	<u>74,168</u>
FUND BALANCES - ENDING	<u>\$ 187,127</u>	<u>\$ 133,448</u>	<u>\$ 1,479</u>	<u>\$ 101,739</u>	<u>\$ 45,699</u>	<u>\$ 2,084</u>	<u>\$ 29,574</u>

CITY OF MILACA, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BLANCES (Continued)
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Special Revenue Funds				Debt Service	
	Revolving Loan	Police Forfeitures	REC Fest	City Event	TIF District No. 1-10	Total Nonmajor Funds
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,913
Tax Increment	-	-	-	-	44,934	44,934
Fines	-	1,200	-	-	-	1,200
Investment Income	976	153	-	179	-	9,413
Miscellaneous	-	-	-	-	-	81,513
TOTAL REVENUES	976	1,353	-	179	44,934	163,973
EXPENDITURES						
Current:						
Public Safety	-	4,094	-	-	-	4,094
Parks and Recreation	-	-	8,274	9,694	-	42,506
Economic Development	-	-	-	-	40,512	42,166
Capital Outlay	-	-	-	-	-	165,905
Debt Service:						
Principal	5,555	-	-	-	-	5,555
Interest and Other Charges	-	-	-	-	1,501	1,501
TOTAL EXPENDITURES	5,555	4,094	8,274	9,694	42,013	261,727
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(4,579)	(2,741)	(8,274)	(9,515)	2,921	(97,754)
OTHER FINANCING SOURCES (USES)						
Transfers In	-	-	-	11,500	-	11,500
Transfers Out	-	-	-	-	-	(60,500)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	11,500	-	(49,000)
NET CHANGE IN FUND BALANCES	(4,579)	(2,741)	(8,274)	1,985	2,921	(146,754)
FUND BALANCES - BEGINNING	65,498	13,025	8,274	8,144	(99,315)	632,842
FUND BALANCES - ENDING	\$ 60,919	\$ 10,284	\$ -	\$ 10,129	\$ (96,394)	\$ 486,088

**CITY OF MILACA, MINNESOTA
SUPPLEMENTAL COMBINING BALANCE SHEET
DEBT SERVICE FUND
DECEMBER 31, 2023**

	2010 GO	2012 GO	2012	2014 Fire Hall	2015 GO Park	2017 Library
	Refunding Debt	Bonds	Equipment Certificate	Improvement	Debt	Lease Refunding
ASSETS						
Cash, Cash Equivalents, and Investments	\$ (35,175)	\$ 222,184	\$ 1,034	\$ 35,769	\$ 27,012	\$ 143,386
Property Taxes Receivable	-	2,322	-	-	3,545	-
Lease Receivables	-	-	-	95,406	-	-
TOTAL ASSETS	<u>\$ (35,175)</u>	<u>\$ 224,506</u>	<u>\$ 1,034</u>	<u>\$ 131,175</u>	<u>\$ 30,557</u>	<u>\$ 143,386</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue:						
Property Taxes	\$ -	\$ 1,886	\$ -	\$ -	\$ 2,880	\$ -
Leases	-	-	-	92,444	-	-
Total Deferred Inflows of Resources	-	1,886	-	92,444	2,880	-
FUND BALANCES						
Nonspendable	-	-	-	2,962	-	-
Restricted	-	222,620	1,034	35,769	27,677	143,386
Unassigned	(35,175)	-	-	-	-	-
Total Fund Balance	<u>(35,175)</u>	<u>222,620</u>	<u>1,034</u>	<u>38,731</u>	<u>27,677</u>	<u>143,386</u>
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ (35,175)</u>	<u>\$ 224,506</u>	<u>\$ 1,034</u>	<u>\$ 131,175</u>	<u>\$ 30,557</u>	<u>\$ 143,386</u>

CITY OF MILACA, MINNESOTA
SUPPLEMENTAL COMBINING BALANCE SHEET (Continued)
DEBT SERVICE FUND
DECEMBER 31, 2023

	2019 Improvement Debt	2020 Loader Equipment Lease	2021 GO Street Project Bonds	2022 GO Street Project Bonds	Intrafund Activity	Total Debt Service Fund
ASSETS						
Cash, Cash Equivalents, and Investments	\$ 56,929	\$ (31,316)	\$ 54,748	\$ 60,602	\$ -	\$ 535,173
Property Taxes Receivable	4,964	-	4,956	1,912	-	17,699
Lease Receivables	-	-	-	-	-	95,406
TOTAL ASSETS	<u>\$ 61,893</u>	<u>\$ (31,316)</u>	<u>\$ 59,704</u>	<u>\$ 62,514</u>	<u>\$ -</u>	<u>\$ 648,278</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue:						
Property Taxes	\$ 4,032	\$ -	\$ 4,026	\$ 1,553	\$ -	\$ 14,377
Leases	-	-	-	-	-	92,444
Total Deferred Inflows of Resources	4,032	-	4,026	1,553	-	106,821
FUND BALANCES						
Nonspendable	-	-	-	-	-	2,962
Restricted	57,861	-	55,678	60,961	(66,491)	538,495
Unassigned	-	(31,316)	-	-	66,491	-
Total Fund Balance	<u>57,861</u>	<u>(31,316)</u>	<u>55,678</u>	<u>60,961</u>	<u>-</u>	<u>541,457</u>
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 61,893</u>	<u>\$ (31,316)</u>	<u>\$ 59,704</u>	<u>\$ 62,514</u>	<u>\$ -</u>	<u>\$ 648,278</u>

CITY OF MILACA, MINNESOTA
SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2023

	2010 GO	2012 GO	2012	2014 Fire Hall	2015 GO Park	2017 Library
	Refunding Debt	Bonds	Equipment	Improvement	Debt	Lease
			Certificate			Refunding
REVENUES						
Taxes	\$ -	\$ 27,800	\$ -	\$ -	\$ 42,457	\$ -
Charges for Services	-	-	-	21,752	-	-
Investment Income (Loss)	-	924	-	98	457	387
Lease Interest	-	-	-	3,400	-	-
TOTAL REVENUES	-	28,724	-	25,250	42,914	387
EXPENDITURES						
Debt Service:						
Principal	-	95,000	-	19,000	30,000	-
Interest and Other Charges	-	2,162	-	760	8,929	-
TOTAL EXPENDITURES	-	97,162	-	19,760	38,929	-
EXCESS (DEFICIENCY) OF REVENUES						
OVER (UNDER) EXPENDITURES	-	(68,438)	-	5,490	3,985	387
FUND BALANCE - BEGINNING	(35,175)	291,058	1,034	33,241	23,692	142,999
FUND BALANCE - ENDING	<u>\$ (35,175)</u>	<u>\$ 222,620</u>	<u>\$ 1,034</u>	<u>\$ 38,731</u>	<u>\$ 27,677</u>	<u>\$ 143,386</u>

CITY OF MILACA, MINNESOTA
SUPPLEMENTAL COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (Continued)
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2023

	2019 Improvement Debt	2020 Loader Equipment Lease	2021 GO Street Project Bonds	2022 GO Street Project Bonds	Intrafund Activity	Total Debt Service Fund
REVENUES						
Taxes	\$ 59,435	\$ -	\$ 59,347	\$ 22,886	\$ -	\$ 211,925
Charges for Services	-	-	-	-	-	21,752
Investment Income (Loss)	234	-	203	533	-	2,836
Lease Interest	-	-	-	-	-	3,400
TOTAL REVENUES	<u>59,669</u>	<u>-</u>	<u>59,550</u>	<u>23,419</u>	<u>-</u>	<u>239,913</u>
EXPENDITURES						
Debt Service:						
Principal	45,000	-	40,000	35,000	-	264,000
Interest and Other Charges	11,962	-	11,807	23,876	-	59,496
TOTAL EXPENDITURES	<u>56,962</u>	<u>-</u>	<u>51,807</u>	<u>58,876</u>	<u>-</u>	<u>323,496</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,707	-	7,743	(35,457)	-	(83,583)
FUND BALANCE - BEGINNING	<u>55,154</u>	<u>(31,316)</u>	<u>47,935</u>	<u>96,418</u>	<u>-</u>	<u>625,040</u>
FUND BALANCE - ENDING	<u>\$ 57,861</u>	<u>\$ (31,316)</u>	<u>\$ 55,678</u>	<u>\$ 60,961</u>	<u>\$ -</u>	<u>\$ 541,457</u>

**CITY OF MILACA, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2023
(UNAUDITED)**

	Issue Dates	Interest Rates	Maturity Dates	Initial Authorized Issue	Outstanding Balance 01/01/23	Issued	Paid	Outstanding Balance 12/31/23	Principal Due Within One Year
GOVERNMENTAL INDEBTEDNESS									
<u>General Obligation Bonds</u>									
G.O. Refunding Bonds, Series 2012A	8/22/2012	1.00-2.15%	2/1/2024	\$ 845,000	\$ 125,000	\$ -	\$ 95,000	\$ 30,000	\$ 30,000
G.O. Park Improvement Bonds, Series 2015A	3/16/2015	2.00-3.40%	12/15/2030	475,000	285,000	-	30,000	255,000	30,000
G.O. Street Reconstruction Bonds, Series 2019A	7/10/2019	2.10-3.00%	2/1/2031	545,000	455,000	-	45,000	410,000	45,000
G.O. Street Reconstruction Bonds, Series 2021A	8/12/2021	0.85-2.00%	2/1/2037	715,000	715,000	-	40,000	675,000	45,000
G.O. Street Reconstruction Bonds, Series 2022A	6/12/2022	3.35-4.00%	2/1/2037	570,000	570,000	-	35,000	535,000	30,000
<u>Notes Payable</u>									
G.O. Note Payable (Ambulance - ECE Loan)	3/3/2014	1.00%	3/3/2024	190,000	38,000	-	19,000	19,000	19,000
RLF Emergency Relief Note	5/22/2020	0.00%	10/1/2023	20,000	5,555	-	5,555	-	-
<u>Financing Arrangements</u>									
Equipment Financing Arrangement	1/1/2020	3.85%	1/1/2027	<u>223,016</u>	<u>135,367</u>	<u>-</u>	<u>-</u>	<u>135,367</u>	<u>26,104</u>
TOTAL GOVERNMENTAL DEBTS				3,583,016	2,328,922	-	269,555	2,059,367	225,104
ENTERPRISE INDEBTEDNESS									
<u>General Obligation Bonds</u>									
G.O. Water Revenue Bonds, Series 2022B	10/13/2022	3.25%	2/1/2028	373,000	373,000	-	-	373,000	67,000
<u>MN Public Facilities Authority Loan</u>									
G.O. Revenue Bonds, 2006	7/19/2006	1.07%	8/20/2026	<u>3,060,114</u>	<u>680,000</u>	<u>-</u>	<u>167,000</u>	<u>513,000</u>	<u>169,000</u>
TOTAL ENTERPRISE DEBTS				3,433,114	1,053,000	-	167,000	886,000	236,000
TOTAL INDEBTEDNESS				\$ 7,016,130	\$ 3,381,922	\$ -	\$ 436,555	\$ 2,945,367	\$ 461,104

OTHER REPORTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
City of Milaca, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milaca (the City), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Milaca's basic financial statements and have issued our report thereon dated June 11, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Milaca's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying *Schedule of Findings and Responses* as items 2023-001 and 2023-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying *Schedule of Findings and Responses* as item 2023-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the City of Milaca failed to comply with the provisions of the contracting – bid laws, depositories of public funds and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

City's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the City of Milaca's response to the findings identified in our engagement and described in the accompanying *Schedule of Findings and Responses*. The City of Milaca's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



SCHLENNER WENNER & CO.

St. Cloud, Minnesota

June 11, 2024

**CITY OF MILACA, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2023**

FINANCIAL STATEMENT FINDINGS

Finding 2023-001 Limited Segregation of Duties

Condition: During our audit we reviewed procedures over cash receipts, cash disbursements, payroll and financial reporting and found the City to have limited segregation of duties over those transaction cycles.

Criteria: Internal control that supports the City’s ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties. In other words, no one person may have control over two or more of these responsibilities.

Cause: Limited number of staff members.

Effect: The existence of limited segregation of duties could adversely affect the City’s ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Recommendation: Although the number of staff members may not be large enough to eliminate this deficiency, we recommend that the City evaluate current procedures and segregate where possible and implement compensating controls. It is important that the Council is aware of this condition and monitor all financial information.

*Views of Responsible
Officials And Planned
Corrective Actions:* Management agrees with the recommendation. See corresponding Corrective Action Plan.

Finding 2023-002 Financial Statement Preparation

Condition: Schlenner Wenner & Co. drafted the audited financial statements and related footnote disclosures for the City. It is management’s responsibility to provide for the preparation of financial statements and the auditors’ responsibility to determine the fairness of the presentation. This deficiency could result in a misstatement that could have been prevented or detected by management.

Criteria: Internal controls over financial reporting should be in place to provide for the preparation of financial statements on an annual basis.

Cause: The City’s staff does not possess the expertise to prepare financial statements internally. This is not unusual for an organization of your size.

Effect: The inability to internally prepare the City’s financial statements can result in undetected errors in financial reporting.

Recommendation: We recommend that management review a draft of the financial statements in detail for accuracy. During review we recommend a disclosure checklist be utilized to ensure all required disclosures are presented and the City should agree the financial statement numbers to their accounting software. The City may not have the ability to eliminate this finding.

*Views of Responsible
Officials And Planned
Corrective Actions:* Management agrees with the recommendation. See corresponding Corrective Action Plan.

**CITY OF MILACA, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2023**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2023-003 Material Audit Adjustments

Condition: Audit adjustments were required to correct material misstatements identified in the trial balance presented for the audit.

Criteria: The City is required to report financial information in accordance with accounting principles generally accepted in the United States of America.

Cause: The City failed to record certain year-end adjustments for the purpose of properly presenting accrual balances required under generally accepted accounting principles.

Effect: The misstatement in the trial balance presented for the audit resulted in the need to record audit adjustments to achieve fair financial statement presentation under accounting principles generally accepted in the United States of America.

Recommendation: We recommend management perform a thorough review of the trial balance prior to the audit and ensure all transactions have been properly recorded.

*Views of Responsible
Officials And Planned
Corrective Actions:*

Management agrees with the recommendation. See corresponding Corrective Action Plan.

**CITY OF MILACA, MINNESOTA
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED DECEMBER 31, 2023**

FINANCIAL STATEMENT FINDINGS

Finding 2023-001 Limited Segregation of Duties

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City currently has the following procedures in place:
 - The City's Department Heads review all invoices received. The City Council also reviews the monthly invoices and approves the expenditures.
 - The City utilizes claim listings which are approved by the City Manager.The City will review current procedures and implement additional controls where possible.
3. Official Responsible
Tammy Pfaff, City Manager, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.

Finding 2023-002 Financial Statement Preparation

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City may continue to have the auditor prepare the financial statements and will continue to document the annual review of the financial statements and related footnote disclosures. The City will revisit this decision on an ongoing, annual basis.
3. Official Responsible
Tammy Pfaff, City Manager, is the official responsible for ensuring corrective action.
4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.
5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.

**CITY OF MILACA, MINNESOTA
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED DECEMBER 31, 2023**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2023-003 Material Audit Adjustments

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
The City will thoroughly review the trial balance prior to audit fieldwork and make any adjusting entries before submitting the trial balance to the auditors.

3. Official Responsible
Tammy Pfaff, City Manager, is the official responsible for ensuring corrective action.

4. Planned Completion Date
The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.

5. Plan to Monitor Completion
The City Council will be monitoring this Corrective Action Plan.